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## FEDERAL DEPOSIT INSURANCE CORPORATION

Comments are requested by the FDIC on a proposed statement of policy which identifies the minimum auditing procedures that the FDIC recommends an independent external auditor perform annually at each state nonmember bank (see the 5/23/89 Fed. Reg., pp. 22360-64). The proposed procedures cover securities, loans, allowance for loan losses, insider transactions, and internal controls. The policy statement also describes the extent of testing that is appropriate when carrying out these procedures and the reports banks should file with the FDIC. In the Statement of Policy Regarding Independent External Auditing Programs of State Nonmember Banks, which was adopted 11/16/88, the FDIC strongly encouraged each state nonmember bank to have an annual audit of its financial statements performed in accordance with generally accepted auditing standards by an independent public accountant (see the 11/21/89 Wash. Rpt.). The 11/16/88 policy statement also recognized that some audit committees or boards of directors may decide not to have an annual audit for various reasons, but recommended each state nonmember bank, at a minimum, to have certain specified auditing procedures performed annually. The policy statement defined an external auditing program as a set of procedures designed to test and evaluate high risk areas of a bank's business. Comments on the proposal must be received by 7/24/89. For further information after reading the proposed policy statement, contact Doris L. Marsh at the FDIC at 202/898-8914.

## FEDERAL HOME LOAN BANK BOARD

Securities activities of a federally insured institution must be accounted for in accordance with generally accepted accounting practices (GAAP), must be conducted in a safe and sound manner, and must be in compliance with an approved and documented investment policy and strategies under a final statement of policy and final rule issued by the FHLBB. The final statement of policy and rule are expected to be published soon in the Federal Register. The proposed statement of policy and rule were published in the 6/21/88 Federal Register (see the 6/20/88 and 7/4/88 Wash. Rpts.). The final policy statement reiterates the requirement that securities activity be recorded in accordance with GAAP, requires management of an institution to support its classification of and accounting for securities via appropriate documentation, requires auditors to document their concurrence or lack thereof with management's classification and accounting, and offers guidance on the factors to be considered by management and its auditors in carrying out their respective responsibilities. The policy statement also requires an insured institution's board of directors to review and approve the institution's investment policy and strategies and to monitor the institution's compliance with the approved investment policy and strategies. The final rule requires separate accounting for and disclosure of securities held for investment, sale, and trading consistent with the requirements of GAAP. The FHLBB said investment securities are those that an institution has the positive intent and ability to hold to maturity; securities held for sale are those retained for an indefinite period for the purpose of realizing a holding gain; and trading securities are those held by an institution to earn a dealer's spread between the bid and asked prices. The policy statement and regulations will be effective 90 days after publication in the Federal Register. For further information after reading the policy statement and rule, contact Joe A. Hargett at the FHLBB at 202/331-4583.

## NATIONAL CREDIT UNION ADMINISTRATION

Changes have been proposed to the NCUA Rules and Regulations that deal with redefining the "loans and risk assets" that determine Federal credit unions and federally insured state credit union reserve requirements (see the 5/22/89 Fed. Reg., pp. 21961-63). The proposals follow comments requested on the same subject

in 1987 because the NCUA Board said it wanted the views of the credit unions before issuing proposed amendments. In 1988, a Credit Union Reserves Study Commission was formed in cooperation with the credit union trade organizations and state regulatory authorities. The Commission recommended: 1) that the credit union movement seek legislative and regulatory changes to replace the current system of required transfers to regular reserves with a system of required net capital contributions, and 2) that the regulatory agencies consider making several regulation changes that would change the current required reserve transfer system. The NCUA, therefore, is recommending that the following should be added to the list of assets that will be included as part of risk assets for the purpose of determining the reserves required by section 116 of the Federal Credit Union Act: 1) Ownership of fixed assets in excess of 5 percent of total shares and retained earnings, and 2) Investments with a remaining maturity over 3 years that are not carried at the lower of cost or market or are not marked to market value monthly. In addition, it is recommended that the Allowance for Investment Losses be included with the Allowance for Loan Losses and Regular Reserve in determining the applicable percentage of gross income to be transferred to the Regular Reserve. Comments must be received by 8/21/89. For further information after reading the proposed amendments, contact D. Michael Riley at the NCUA at 202/682-9640.

#### SECURITIES AND EXCHANGE COMMISSION

An interpretive release relating to Item 303 of Regulation S-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and certain investment company disclosures has been published by the SEC (see the 5/24/89 Fed. Reg., pp. 22427-36). The SEC approved the issuance of the interpretive release at a 5/18/89 open meeting (see the 5/22/89 Wash. Rpt.). The interpretive release reports the results of the first two phases of a continuing project undertaken by the SEC's Division of Corporation Finance and sets forth the Commission's interpretation, as well as illustrative examples, of MD&A disclosures to assist the registrant and its internal and external advisors to comply with the disclosure requirements of Item 303. For further information after reading the release, contact Howard F. Morin at the SEC at 202/272-3203.

#### TREASURY, DEPARTMENT OF

Guidance regarding forthcoming regulations interpreting the uniform capitalization rules under section 263A of the Internal Revenue Code has been issued by the IRS in Notice 89-67. The notice specifically addresses amendments made to section 263A by the Technical and Miscellaneous Revenue Act of 1988 regarding the simplified resale method, as well as the exemption from the capitalization provisions for "qualified creative expenses" incurred by free-lance authors, photographers, and artists, and for certain farming expenses. The notice also clarifies certain issues raised in other guidance previously published under section 263A of the Code. The notice provides that the dates by which an amended return for the purpose of changing a method of accounting in accordance with the provisions of Notice 88-78, Notice 88-86, Notice 88-99, or Notice 89-67 must be filed is the later of the due date of the taxpayer's income tax return for the second taxable year that begins after 12/31/86 or 10/16/89. Notice 89-67 also outlines conditions under which a taxpayer subject to the Coordinated Examination Program will not be required to file an amended return. Notice 89-67 is scheduled to appear in Internal Revenue Bulletin 1989-24, dated 6/12/89. For further information after reading the notice, contact Ellen McElroy at the IRS at 202/566-4941.

**SPECIAL: SENATE FINANCE COMMITTEE TO HOLD HEARING ON STATE TAXATION OF NONRESIDENTS**

Legislation providing a moratorium on, and study of, certain state tax laws relating to the taxation of nonresidents, S. 800, is the subject of a hearing announced for 6/13/89 by the Senate Finance Committee. The hearing is scheduled to begin at 10:00 a.m. in Room 215 of the Dirksen Senate Office Building, Washington, D.C. Witnesses will appear by invitation only, but written comments for the printed hearing record are invited. Written statements for the record must be received no later than 7/5/89. For further information, contact the staff of the Senate Finance Committee at 202/224-4515.

**SPECIAL: 1989 AICPA GOVERNMENTAL ACCOUNTING AND AUDITING CONFERENCE SCHEDULED**

The 6th Annual National Governmental Accounting and Auditing Update Conference sponsored by the AICPA has been scheduled for 8/28-29/89 at the Grand Hyatt Washington Hotel in Washington, D.C. The keynote address will be delivered by Thomas L. Holton, chairman of the Committee to Review Structure for Governmental Accounting Standards. Rep. Frank Horton (R-NY), the ranking minority member of the House Government Operations Committee, will be one of the featured speakers. Other distinguished government officials and representatives of the accounting profession will also participate as speakers and panelists. Recent developments in governmental accounting and auditing, including implementation of the revised GAO "Yellow Book," the five-year review of the GASB structure and jurisdiction, and the new auditing standard on compliance auditing issued by the AICPA, will be addressed. Other specific topics to be covered during the conference include the following: Federal Actions Update Highlighting OMB Circulars; Tax Issues Facing State and Local Governments Including Arbitrage; GASB Statements on MFBA, Pensions and Risk Management; Internal Control Consideration Under SAS No. 55; Federal Budget Issues; Cash Flow Reporting and Reporting Entity Definition and Display Issues; Performance Auditing at Federal, State and Local Governments; Details of OMB Circulars, Common Rules, and Other OMB Publications; Federal Financial Statements, Accounting Principles and Audits; Accounting for Fixed Assets; Fraud Auditing at the Federal Level; and Peer Reviews for External Audit Quality Assurance. Recommended CPE credit is 16 hours. For further information, contact the AICPA Meetings and Travel Division at 212/575-6451.

For further information contact Shirley Twillman at 202/737-6600.

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